State of Georgia

Full Rating Report

Ratings

Issuer Default Rating	AAA
General Obligation Bonds	AAA
State Guaranteed Revenue Bonds	AAA
Clayton County Development Authority (TUFF Archives LLC – State of Georgia Project) Revenue Bonds (State Appropriation Debt)	AA+

Rating Outlook

Stable

Related Research

Fitch Rates Georgia's $1.4 Billion General Obligations 'AAA'; Outlook Stable (June 2016)

2016 Outlook: U.S. States (Credit Stability bud Budgeting Remains a Challenge) (December 2015)

2015 State Pension Update (October 2015)

U.S. States: The Rising Cost of Care (How Medicaid Costs Affect State Budgets and Credit Ratings) (July 2015)

Analysts

Eric Kim
+1 212 908--0241
eric.kim@fitchratings.com

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com

Georgia's 'AAA' issuer default rating (IDR) reflects the state's conservative debt management, proven willingness and ability to support fiscal balance and a broad-based and growing economy. The state took repeated budgetary action during the recession, including steep spending cuts and draws from its rainy day fund. Since then, Georgia has maintained a conservative approach to fiscal management, limiting spending growth and making progress rebuilding its reserves. The state's long-term liability burden is low.

Key Rating Drivers

Economic Resource Base: The state's economic profile is similar to that of the nation, with trade, transportation and utilities and various service sectors, including professional, business, education and health, representing the largest employers. Job losses during the Great Recession were particularly steep, but the state's recovery has outpaced the nation's. Georgia's demographic profile is somewhat mixed, with above-average population growth and a median age below the nation's, but it has weaker wealth indicators. Overall, these factors should support further solid economic growth.

Revenue Framework ('aaa' factor assessment): Georgia's revenues, primarily consisting of income and sales taxes, will continue to reflect the depth and breadth of the economy and its solid growth potential. The state has complete control over its revenues, with an essentially unlimited legal ability to raise operating revenues as needed. A recent constitutional amendment limiting the personal income tax (PIT) rate does not limit Fitch's assessment since full flexibility remains for other revenue sources.

Expenditure Framework ('aaa' factor assessment): The state maintains ample expenditure flexibility with a low burden of carrying costs and the broad expense-cutting ability common to most U.S. states. Also, as with most states, Medicaid remains a key expense driver, but one that Fitch expects to remain manageable.

Long-Term Liability Burden ('aaa' factor assessment): Georgia's long-term liability burden is low, and overall debt management is conservative. While the state issues bonds regularly for capital needs, amortization of principal is rapid. Additionally, Georgia fully funds its actuarially determined employer contributions (ADECs, formerly ARC) for pensions, keeping the unfunded liability very manageable.

Operating Performance ('aaa' factor assessment): The state is well positioned to deal with economic downturns, with exceptionally strong gap-closing capacity due to its broad control over revenues and spending and rebuilt revenue shortfall reserve (RSR). Georgia has a track record of restoring financial flexibility during economic expansions, which is important given the state's above-average revenue volatility.

Rating Sensitivities

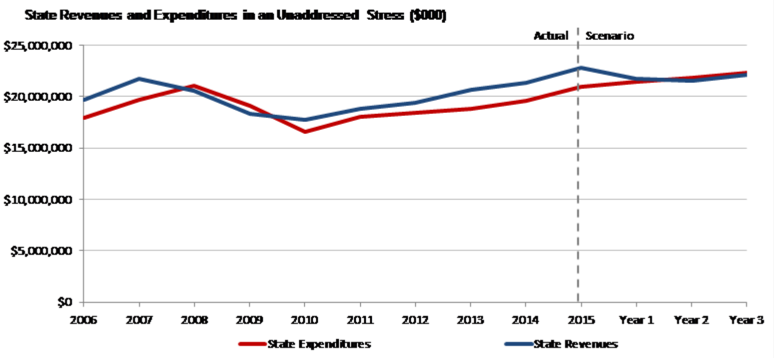
Solid Financial Management: The rating is sensitive to shifts in Georgia's fundamental credit characteristics, including its history of timely action to address budgetary challenges and proactive measures to ensure fiscal flexibility.

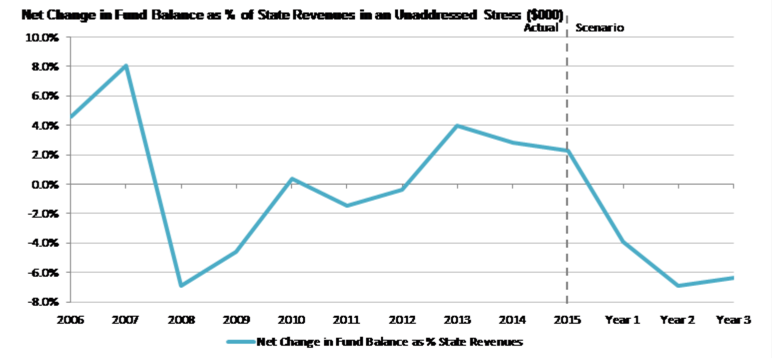
Development Authority Bonds: The rating for the authority's revenue bonds is sensitive to changes in the state's 'AAA' IDR, to which it is linked.

Georgia, State of (GA)

Scenario Analysis

v. 1.02 2016/05/17





Analyst Interpretation of Scenario Results:

Georgia's exceptionally strong gap-closing ability during cyclical downturns derives primarily from its superior budget flexibility. Conservative fiscal practices and a somewhat volatile, but still diverse and expanding, economy offer a strong platform for the state to gradually restore fiscal flexibility once utilized. Georgia typically responds to budgetary stress with spending restraint and use of budgetary reserves. During the Great Recession, state's primary reserve fund (the RSR) went from a peak of $1.5 billion in fiscal 2007 to $103.7 million just two years later.After a budget is enacted, the governor has significant statutory authority to administer the budget and scale back spending as needed, allowing the state to be responsive to changing conditions. The state made regular use of this tool during the last recession. Even several years into the recovery, the governor regularly ordered most agencies to reduce spending below enacted budget levels shortly after the start of fiscal years as a precautionary measure. The tactic contributed to regular operating surpluses and rebuilding of reserves.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(4.7%)	(1.1%)	2.5%

Revenues, Expenditures, and Net Change in Fund Balance	Actuals										Scenario Output		
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Expenditures													
Total Expenditures	27,971,037	30,357,672	32,698,694	32,468,880	32,992,466	32,747,935	33,662,267	34,697,550	34,947,745	37,041,309	37,782,135	38,537,778	39,308,533
% Change in Total Expenditures	3.0%	8.5%	7.7%	(0.7%)	1.6%	(0.7%)	2.8%	3.1%	0.7%	6.0%	2.0%	2.0%	2.0%
State Expenditures	17,946,391	19,709,215	21,074,959	19,051,356	16,536,407	18,038,227	18,367,736	18,761,711	19,587,936	20,985,193	21,404,897	21,832,995	22,269,655
% Change in State Expenditures	5.6%	9.8%	6.9%	(9.6%)	(13.2%)	9.1%	1.8%	2.1%	4.4%	7.1%	2.0%	2.0%	2.0%
Revenues													
Total Revenues	29,738,539	32,414,740	32,153,372	31,745,333	34,194,151	33,530,316	34,693,594	36,610,546	36,738,644	38,900,998	38,145,944	38,235,032	39,111,685
% Change in Total Revenues	3.4%	9.0%	(0.8%)	(1.3%)	7.7%	(1.9%)	3.5%	5.5%	0.3%	5.9%	(1.9%)	0.2%	2.3%
Federal Revenues	10,024,646	10,648,457	11,623,735	13,417,524	16,456,059	14,709,708	15,294,531	15,935,839	15,359,809	16,056,116	16,377,238	16,704,783	17,038,879
% Change in Federal Revenues	(1.3%)	6.2%	9.2%	15.4%	22.6%	(10.6%)	4.0%	4.2%	(3.6%)	4.5%	2.0%	2.0%	2.0%
State Revenues	19,713,893	21,766,283	20,529,637	18,327,809	17,738,092	18,820,608	19,399,063	20,674,707	21,378,835	22,844,882	21,768,705	21,530,249	22,072,807
% Change in State Revenues	5.9%	10.4%	(5.7%)	(10.7%)	(3.2%)	6.1%	3.1%	6.6%	3.4%	6.9%	(4.7%)	(1.1%)	2.5%
Excess of Revenues Over Expenditures	1,767,502	2,057,068	(545,322)	(723,547)	1,201,685	782,381	1,031,327	1,912,996	1,790,899	1,859,689	363,808	(302,746)	(196,848)
Total Other Financing Sources	(899,700)	(403,248)	(872,503)	(124,152)	(1,135,601)	(1,351,495)	(1,101,892)	(1,089,274)	(1,195,032)	(1,347,331)	(1,217,005)	(1,190,107)	(1,207,750)
Net Change in Fund Balance	904,914	1,751,939	-1,419,157	-847,699	66,084	-281,114	-70,565	823,722	595,867	512,358	-853,196	-1,492,853	-1,404,598
% Total Expenditures	3.2%	5.8%	(4.3%)	(2.6%)	0.2%	(0.9%)	(0.2%)	2.4%	1.7%	1.4%	(2.3%)	(3.9%)	(3.6%)
% State Expenditures	5.0%	8.9%	(6.7%)	(4.4%)	0.4%	(1.6%)	(0.4%)	4.4%	3.0%	2.4%	(4.0%)	(6.8%)	(6.3%)
% Total Revenues	3.0%	5.4%	(4.4%)	(2.7%)	0.2%	(0.8%)	(0.2%)	2.2%	1.6%	1.3%	(2.2%)	(3.9%)	(3.6%)
% State Revenues	4.6%	8.0%	(6.9%)	(4.6%)	0.4%	(1.5%)	(0.4%)	4.0%	2.8%	2.2%	(3.9%)	(6.9%)	(6.4%)

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History — GO and State Guaranteed Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/3/16
AAA	Assigned	—	1/05/93

Rating History — State Appropriation Debt

Rating	Action	Outlook/ Watch	Date
AA+	Upgrade	Stable	6/3/16
AA	Assigned	Stable	5/10/12

Applicable Criteria

U.S. Tax-Supported Rating Criteria (April 2016)

Credit Profile

After a sharp recessionary downturn, the state's diverse economy has accelerated, with employment growth outpacing national trends. Recovery in the manufacturing sector has been particularly important. In the past, low value-added manufacturing had been a primary economic driver in the areas outside Atlanta. Those industries declined in the years leading up to the recession, which exacerbated the economic losses. However, since 2011, the sector has been growing, with key gains coming in the automotive industry.

The housing market downturn hit Georgia particularly hard; however, recovery has been strong, with direct implications for economic and revenue growth. Housing prices declined precipitously across the state, particularly in the Atlanta metropolitan area in 2008 and 2009. Prices rebounded, with growth in the Atlanta area far outpacing most other major metropolitan areas by late 2012. By mid-2014, Atlanta's growth slowed and has moved in tandem with national trends since then. Fitch's Residential Mortgage-Backed Securities group characterizes the state's 2015 home prices as sustainable given underlying economic fundamentals.

Revenue Framework

Georgia's PIT and sales and use tax together account for approximately three-fourths of the state's general fund receipts. The PIT alone makes up nearly half of total receipts. Both revenue sources are fairly economically sensitive and respond quickly to shifts in the state's economic trajectory.

Fitch anticipates revenue growth will remain slightly positive on a real basis, in line with the historical trend, given the state's solid economic growth prospects. Robust revenue growth in years of economic gains has been offset by sharp declines when Georgia's economy contracts.

Georgia recently enacted a constitutional cap on its income tax rate at the current level, but no such limit exists for the sales tax or other state revenue sources. While the PIT is the state's most significant revenue stream, Fitch does not view the constitutional cap as a limiting factor in the revenue framework assessment. For all other taxes and fees, Georgia has no legal limitations on its independent ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

Expenditure Framework

As in most states, education and health and human services spending are Georgia's largest operating expenses. Education is the larger line item, as the state provides significant funding for local school districts and the public university and college system. Health and human services spending is the second largest area of spending, with Medicaid being the primary driver.

Spending growth, absent policy actions, will likely be in line with to marginally above revenue growth driven primarily by Medicaid, requiring regular budget management to ensure ongoing balance. The fiscal challenge of Medicaid is common to all U.S. states, and the nature of the program, as well as federal government rules, limit the states' options in managing the pace of spending growth.

In other major areas of spending such as education, Georgia is able to more easily adjust the trajectory of growth and did so during and after the recession. Next year, the state legislature will consider recommendations from a gubernatorial education reform commission that include increased state spending for K–12 education and an overhaul of the formula used to allocate state and local funding responsibilities. Fitch anticipates the state will enact changes consistent with its generally conservative expenditure management that will not materially alter the assessment of Georgia's natural pace of spending growth.

Georgia retains ample expenditure flexibility. While Medicaid costs are somewhat beyond the state's ability to materially change given federal requirements for the program, the state's carrying costs are low and unlikely to escalate significantly given carefully managed debt issuance and full actuarial pension contributions. Like most states, Georgia's operating budget (outside of Medicaid) goes largely toward funding services rather than direct service delivery, allowing the state to shift costs to lower levels of government in times of fiscal stress.

Long-Term Liability Burden

Most of the state's modest tax-supported debt burden is in the form of GO or guaranteed revenue bonds, and amortization of principal is rapid, with approximately 70% maturing within 10 years. Other outstanding obligations include federal grant anticipation revenue (GARVEE) bonds, capital leases, multiyear leases entered into by the State Properties Commission, and a small amount of notes and loans. Including a recent GO sale, net tax-supported debt remains low at 2.6% of 2015 state personal income.

Georgia's major pension systems covering both state employees and teachers have benefited from consistent full funding of the ARC/ADEC. As of the June 30, 2015 valuation and under the new GASB 67 reporting standard, systemwide ratios of assets to liabilities for the state employees' and teachers' plans were reported at 76.2% and 81.4%, respectively. Both ratios were consistent with prior-year results under the prior GASB reporting standard. Using Fitch's more conservative 7% discount rate assumption, the state employees' and teachers' plans were funded at 69% and 77.6%, respectively, as of June 30, 2015.

As reported in Fitch's October 2015 state pensions update, Georgia's net tax-supported debt and Fitch-adjusted unfunded pension liability attributable to the state totaled a low 4.9% of 2014 personal income. This is below the median of 5.8% for U.S. states.

Operating Performance

Georgia's exceptionally strong gap-closing ability during cyclical downturns derives primarily from its superior budget flexibility. For details, see Scenario Analysis, page 2.

As revenues recover in economic expansions, Georgia works toward re-establishing reserves, primarily in its RSR, and gradually restoring prior-year cuts. Statutory requirements to transfer all end-of-year surpluses to the RSR (until its statutory cap, currently 15%) led the state to build a sizable balance leading into the last recession of just more than 8% of net revenues. And after drawing down the RSR significantly during the Great Recession, the state steadily contributed to it during the expansion. At the end of fiscal 2015, the balance of $1.4 billion (net of an annual midyear appropriation for K–12 education) represented 7% of net revenues.

Georgia has been slower to restore spending cuts, which were most prominently made in education spending. It took until fiscal 2015 for annual state appropriations for education to reach the pre-recession peak, and even then, enrollment growth since the recession implied continued spending pressure. More substantial increases in fiscal 2016 and in the enacted budget for fiscal 2017 make more progress toward fully restoring prior cuts. The slow restoration reflects Georgia's historically conservative fiscal practices. Fitch notes the state has consistently met its actuarial pension funding commitments and generally avoided non-recurring budget balancing measures since emerging from the recession.

Current Developments

Georgia's revenue performance in fiscal 2016 has been strong and ahead of the enacted budget forecast, reflecting overall economic growth as well as structural and procedural changes. PIT revenues were up a robust 8.8% for the year through April, with gains in both withholding (6.1%) and non-withholding (7.1%). Refunds were down 3.4% as well, which the state views as a slowdown in the pace attributable to increased fraud detection efforts; refund volume could pick up later in the year, driving down net collections growth. Sales and use tax revenues to the general fund were up a modest 0.6% for the year, but this weakness reflects significant transportation funding changes that resulted in a substantial net increase in total state revenues. Total state general fund receipts were up 9.9% through April.

The amended fiscal year 2016 (AFY) budget relies on 6.2% growth in revenues, and Fitch anticipates the state could see another sizable surplus at the end of the year given revenue trends, with an ensuing addition to the RSR. For fiscal 2017, the enacted budget continues the trend of using revenue growth to support program expansion and restoration of prior-year cuts. The budget forecasts general fund revenue growth of 3.8% from AFY 2016. Education funding is up notably, with $432.5 million (4.6% from the enacted fiscal 2016 budget) in additional Quality Basic Education Program funding (basic aid) for K–12. Healthcare costs, including for Medicaid, also received increased funding in both the AFY 2016 and enacted fiscal 2017 budgets.

Transportation funding increased substantially with the adoption of House Bill 170 (HB 170) last year, which helps address the growing state's infrastructure demands. The bill altered the state's tax structure for transportation effective July 1, 2015, and the AFY 2016 budget reflects an additional approximately $700 million in transportation revenues from the prior year. Georgia estimates $645 million of the increase was due to HB 170's implementation.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.